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THE DIRECTOR OF
CENTRAL INTELLIGENCE


National Intelligence Council

NIC #05585-84
28 September 1984

C/NIC
CHRONO
28 Sep

NOTE FOR: Chairman, NIC

VIA: Acting Vice Chairman, NIC

FROM: 
A/NIO/Narcotics

25X1

SUBJECT: Transmittal of Sanitized Excerpts from
the Drug Money Estimate

Attached for your signature is a letter
transmitting sanitized excerpts from the subject
Estimate to DEA.

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Attachment:
As stated

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The Director of Central Intelligence
Washington, D.C. 20505

1 OCT 1984

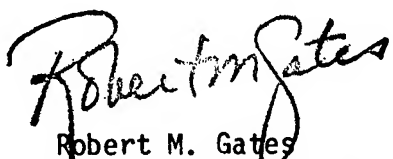
National Intelligence Council

MEMORANDUM FOR: Francis M. Mullen, Jr.
Administrator, Drug Enforcement Administration

SUBJECT: Transmittal of Sanitized Excerpts from NIE 8-84:
The International Flow of Drug Money: Implications
for US Policy

1. As you know, Mr. James D. Harmon, Jr., Executive Director and Chief Counsel for the President's Commission on Organized Crime, has requested that portions of the captioned Estimate be declassified for public disclosure. Per your discussion with the DDCI, the attached sanitized excerpts from the Estimate are provided for release to Mr. Harmon under the auspices of the NNICC.

2. Thank you for your assistance.


Robert M. Gates
Chairman, National Intelligence Council

Attachments:
As stated



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SCOPE NOTE

The data presented in these findings must be viewed with utmost caution. They are intended only to provide orders of magnitude and indicate direction of change. Numbers associated with the illegal drug trade--consumption, prices, imports, etc.--are subject to large errors. Information of even less reliability is available on the amount of drug-related money moving through international financial markets. Estimates of the current situation often are based on the subjective view of experts. New information or statistical analysis could alter these findings significantly. Nonetheless, the data presented here are adequate to portray the problem at hand and to support the findings.

The dollar values for illegal drug money included in these findings have not been approved by the National Narcotics Intelligence Consumers' Committee (NNICC), which is responsible for coordinating estimates of the size of the US drug market and releasing them to the public. The NNICC, chaired by DEA, consists of government agencies with enforcement, policy, treatment, research, and intelligence responsibilities in drug abuse. The dollar values are provided only to place the problem in general perspective and should not be considered definitive.

NOTE: Information available as of 27 June 1984 was used in the preparation of these findings. - 1 -

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KEY JUDGMENTS

The Magnitude of the Problem

Some \$5-15 billion of the \$50-75 billion in illegal drug money earned in the United States probably moves into international financial channels each year:

- More than two-thirds of the \$5-15 billion is moved on behalf of foreign traffickers bringing drugs to the United States, as well as Colombians and Mexicans involved in distributing cocaine and heroin in the United States. The remainder comes from funds earned by US drug dealers and distributors.
- About one-third of the illegal drug money moves overseas in the form of currency, and much of the remainder is wired abroad after being deposited in the US banking system.
- More than two-thirds of the \$5-15 billion probably passes through Colombia, or the offshore banking centers of the Caribbean Basin, mainly Panama, The Bahamas, and the Cayman Islands.
- US drug money accounts for less than 1 percent of funds that flow through the international financial system each day.

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-- The amounts of foreign exchange earned by citizens of Colombia, Peru, Bolivia, and Jamaica from the sale of illegal drugs is sizable relative to the recorded exports of goods and services of these countries. For Colombia, the figure exceeds 70 percent.

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DISCUSSION

Roughly 90 percent of money generated by illegal drug sales is earned by wholesalers and retailers operating in the United States. The remaining 10 percent is for the cost of imports, which is divided among smugglers, foreign laboratory operators, and farmers. Even though imports account for a small share of the street value, they still are a sizable \$6-8 billion. This range exceeds the value of US imports of coffee or alcoholic beverages and encompasses that of consumer electronic products.

Laundering these vast sums of illegally earned drug dollars requires a system as large, complex, and secretive as the ones developed to distribute illegal drugs. At each level in the domestic drug-marketing chain, distributors often are left with sizable amounts of currency after they pay for their supplies of illegal drugs and meet their business and living expenses. To avoid the threats of detection or theft involved in holding the remaining currency, drug dealers must discreetly move a huge volume of cash into the banking system and then, in some instances, attempt to transform these funds into financial assets that look as if they were acquired legally. In most cases, both dimensions of this laundering operation are handled within the United States. Money moves into international

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channels* when traffickers and their launderers consider that route safer or more expeditious and when payments are made to foreign traffickers and suppliers of illegal drugs.

In a few foreign countries--especially Colombia, Jamaica, Bolivia, and Peru--drug earnings provide a significant proportion of foreign exchange receipts (see Figure: Illegal Drug Exports of Selected Countries as a Percentage of Their Recorded Exports of Goods and Services--Unclassified). For example, illegal drug money received by Colombian traffickers is equivalent to 70 percent of the country's recorded exports of goods and services. Colombians also earn sizable profits in distributing drugs in the United States. Some of the funds, however, earned by citizens of Colombia and other drug-exporting countries never return home; they are either retained in the United States or invested elsewhere.

The Movement of Money

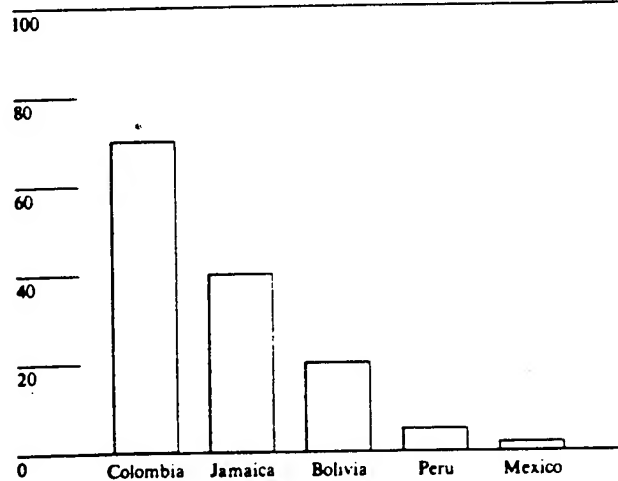
Drug money, as well as other illegal funds, moves into international channels in four basic ways:

- Currency is transported abroad.
- Funds are wired abroad after the currency is deposited in a US financial institution.

* International laundering includes the movement of money abroad (in any form) to pay suppliers and traffickers, to disguise profits, and to diversify placement of financial assets, as well as the movement of currency abroad in order to deposit it into the banking system.

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Figure
Illegal Drug Exports of Selected Countries as a
Percentage of Their Recorded Exports of Goods
and Services*



* Earnings of citizens of each country.



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- Negotiable financial instruments--for example, cashier's checks, traveler's checks, stocks, bonds, and certificates of deposit--purchased in the United States are carried abroad.
- Finally, funds are transferred abroad without involving any visible movement of assets in international channels. For example, launderers often pass drug dollars to legitimate foreign businessmen in the United States, who use the money to buy US goods and services. In exchange, foreign businessmen transfer an equal amount of money from their bank accounts to that of drug launderers in some foreign country.

The most significant recorded flow of currency back to the United States that is likely to be drug money is the \$1 billion a year received from Panama.

In many cases, the launderers are depositing currency into bank accounts in the United States and then requesting the bank to wire the funds to an account abroad. Drug money launderers would seem to prefer this funds transfer method because of its ease and the ability to avoid shipping bulky amounts of currency. From their perspective, the major drawbacks are that deposits in the United States leave a paper trail and currency deposits of more than \$10,000 require the depositor to fill out an identification form. Those handling the funds, however,

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often avoid the most visible aspects of the laundering process by commingling the drug-related money with legal funds before depositing the cash into a bank. Thus, by the time the money is transferred abroad, it looks like a legitimate transfer.

The most that can be deduced from the offshore financial statistics is that drug money probably accounts for a small share of the deposits made by individuals and corporations and an infinitesimal share--less than 1 percent--of the flows when intrabank transactions are included. Even if the \$5-15 billion in US drug money moved five times in a year, the total annual flow would amount to less than \$100 billion. In comparison, at the New York international bank clearing center alone more than \$250 billion changes hands daily.

Drug money flows can be best detected at the early stages of the laundering chain. As indicated, drug traffickers have the most direct contact with the laundering process at the point when cash is moved into the financial system and when specialists skilled at disguising the true owners of funds are contacted. After that, the drug money often becomes an indistinguishable part of the huge pool of international funds and travels under highly disguised links back to the original owners.

Case Studies

One of the most vital elements of the criminal syndicate is its financial organization. The special skills required for

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international movement of contraband money are frequently in short supply within criminal families, so trusted outside specialists are more apt to be placed in charge of money movements than other aspects of the business. Those financiers that work for syndicates often operate through close and trusted members of their own families in various parts of the world, however, creating subsyndicates capable of quickly moving money throughout a wide area.

The career of Isaac Kattan-Kassin probably constitutes a prototype of the traditional relationship between Colombian drug traffickers and money exchangers. With his links to drug money movement already established, Kattan probably was one of the principals involved in the shift of cocaine money laundering from New York City to Miami in the 1970s. He subsequently functioned virtually as "Chancellor of the Exchequer" for at least one major cocaine-trafficking organization--a degree of involvement that does not appear to have been duplicated, at least in the United States, since his arrest and the impoundment of his records.

Well known, and one of the best organized of the crime syndicates, is Traditional Organized Crime (TOC), more popularly referred to as the Mafia, La Cosa Nostra, the Mob, or the Syndicate. TOC has been involved in heroin trafficking since the late 1930s and early 1940s.

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Heroin has always been the drug commodity preferred by TOC. Much of the heroin handled by American TOC figures has been processed in laboratories under the control of their Italian counterparts in Sicily. A downpayment, ranging from a small fraction to 100 percent of the delivered price, reportedly is required in advance of shipment. Out of a total take of some \$2.5 billion from heroin sales, US TOC families probably send up to \$1 billion annually in payments to suppliers in Sicily. There is considerable probability that a substantial share of US profits is reinvested directly within the TOC economic empire or laundered domestically for legitimate investment purposes, although some US family drug money finds its way into Swiss bank accounts.

Because of the diversity and sophistication of TOC financial operations, transfer of money poses far fewer problems than in the case of newer trafficking groups. Cash transportation by courier, the principal method of transfer in the past, still is commonly used. Mafia couriers are highly trusted employees of the syndicate who are specialists in their trade. The most sophisticated are the international operators, normally employed only by the leading families, who must speak a number of languages and be familiar with international banking procedures. Courier transportation probably is used most commonly to deliver payments for heroin supplies to Italy. The destination of much of the TOC heroin money

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repatriated from the US market to Italy is Milan, which is preferred over other cities because of its proximity both geographically and institutionally to Switzerland.

There is some evidence that Traditional Organized Crime is attempting to handle Southeast Asian heroin. If oriental traffickers succeed in penetrating the US market for Southeast Asian heroin as they did in Europe in the mid-1970s, a readymade underground financial channel--the Chinese banking system--already is in place to launder proceeds. Responsible for moving most heroin money in Southeast Asia, it operates through gold shops, trading companies, and money changers, many of which are operated in various countries by members of the same Chinese family. Recordkeeping susceptible to standard audit rarely exists in this underground banking system, and coded messages, "chits," and simple telephone calls are used to transfer money from one country to another. Nonetheless the system has the ability to transfer funds from one country to another in a matter of hours, provide complete anonymity and total security for the customer, convert gold or other items into currency, and convert one currency into that of the customer's choice. When it is necessary to transfer money to Southeast Asia from Europe or the United States (where the influence of Chinese families may be of less significance), commercial banks are frequently integrated into the system.

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